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REVITALIZING LARGE COMPANIES

David G. Anderson	Julien R. Phillips
Sloan School of Management	McKinsey & Company
Massachusetts Institute of Technology	San Francisco, CA

Nancy Kaible
Concord, Massachusetts

SSM WP # 1680-85

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MASSACHUSETTS
INSTITUTE OF TECHNOLOGY
50 MEMORIAL DRIVE
CAMBRIDGE, MASSACHUSETTS 02139

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by

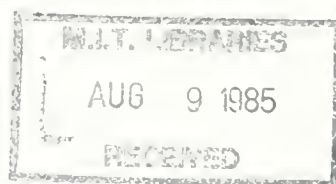
David G. Anderson
Assistant Professor of Management
Sloan School of Management
Massachusetts Institute of Technology
Cambridge, Massachusetts

Julien R. Phillips
Principal, McKinsey & Company, Inc.
San Francisco, California

Nancy Kaible
Concord, Massachusetts

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INTRODUCTION

In these turbulent times, many large companies in Europe and America are trying to cope with growing domestic and international competition, rapid technological change, sudden shifts in consumer preferences, and other changes in their business environments by making major changes in strategies, structures, and management systems all at once. The struggles of some corporate giants trying to transform themselves -- AT&T, Ford, Kodak, Levi Strauss, and Siemens, among others -- are becoming quite well known through frequent stories in the business press.

The track record for large companies that attempt fundamental transformations is not too encouraging. Addressograph Multigraph's ill-fated attempt to move from electromechanical to electronic technologies demonstrates how difficult it can be to bridge a major technology gap.¹ When computers and xerography began to cut sharply into Addressograph Multigraph's traditional duplicating markets in the 1960s, management was slow to respond. In the late 1960s, though, the company abruptly reversed its conservative course and introduced a barrage of new products. Unfortunately, almost all of them were unsuccessful, and the company was forced to write off over \$30 million in discontinued equipment in the early 1970s.

Addressograph Multigraph's weakened financial condition prompted a change of management, and Charles Davis was brought in from Honeywell in 1973 to overhaul the company's product lines and management systems. Davis's efforts had little impact, however, and three years later Roy Ash, head of the Office of Management and the Budget (OMB) under President Nixon and co-founder of Litton Industries, was named CEO. Ash tried to use

Addressograph Multigraph's older product lines as "cash cows" to fund a new thrust into electronics and the "office of the future." The company acquired a number of small electronic firms and committed research funds to developing large, sophisticated office automation systems. Ash also tried to rejuvenate the company's image, changing its name to AM International and moving the corporate headquarters from low-tech Cleveland to high-tech Los Angeles. He spoke prominently about "changing the corporate culture" at AM International (Kraar, 1978).

Unfortunately, in the rush to propel AM International into new markets, Ash and his new management team neglected the company's old businesses and mismanaged its new ones. Investment in older product lines (e.g., the small duplicating machines that populated thousands of businesses, schools, and other institutions, was cut off, which accelerated the deterioration of AM International's competitive position in these core businesses. Newly acquired companies were rushed along too fast, with inadequate attention to product positioning, manufacturing efficiency, and financial controls. The result of all this was further losses, and in 1981 Ash was replaced as CEO by Richard Black, a "turnaround artist" who had saved Chicago-based Maremount Corporation from bankruptcy in the late 1970s. Black was unable to turn AM International around, and the company filed for protection under Chapter XI in early 1982.

What makes change efforts like Addressograph Multigraph's so difficult to carry out successfully is their complexity. The scope of change is not limited to enhancing a few product lines, reducing turnover and absenteeism, or divesting one or two poor performers. In a large multinational company, major changes cut across many functions, product lines, and geographies. A major transformation often changes a company's relationships with

shareholders, customers, bankers, and other constituencies. Fundamental cultural characteristics, from the way employees interact with each other to the way they treat customers and suppliers, are scrutinized and challenged. Furthermore, because the scope of change is so broad, time horizons are long, which complicates the task further.

Even though change has been a central issue in organizational behavior for many years, there are relatively few descriptive theories of the change process, and even fewer that are specifically directed at the process of transformation in large organizations.² For the most part, descriptive studies of large-scale organizational transformations have been left to historians, biographers, and journalists, whose objectives have been to chronicle individual cases, not develop general theories. Detailed accounts like the autobiographies of Sloan, Iacocca, and Edwardes, the careful histories of Chandler and others, as well as much current writing in business periodicals, raise many interesting theoretical issues about the transformation process. However, drawing together fragmentary information from such diverse sources into a coherent set of propositions about large-scale change is a daunting task.

The research described here is exploratory: it describes a set of hypotheses about one particular type of large-scale change (a "revitalization") by studying a number of companies that managed this type of change successfully. The study was motivated by the presumption that managers who undertake revitalizations in their own companies can reduce their risk of failure by learning from other companies which succeeded. In general terms, the research aims to build "grounded theory" about the process of major change in large organizations using an inductive comparative case study approach. From interviews and documentary evidence, we pieced together

a general framework that identifies common themes and patterns of action across different revitalizations, concentrating on those factors which seem important to their success.³

REVITALIZATION CASE STUDIES

A revitalization is defined as a change process that transforms an organization from a state of stagnant or substandard performance relative to peers in its task environment to a state of sustained superior performance in a moderate period of time (5 or 10 years). While this definition of a revitalization is not very precise, it captures an important process which seems to occur periodically in large companies.⁴

A revitalization can be distinguished from three other types of favorable changes in organizational performance: (1) Enhancement; (2) Turnaround; and (3) Recovery. An organization has been enhanced if its performance relative to peers in its industry improves gradually over a long period of time -- fifteen or twenty years or more. Enhancement is an incremental process of strengthening the skill base of different functions and businesses over time, and overall performance improves slowly. Since most companies in competitive industries are prodded into improving themselves over time, enhancement implies that a company is improving itself faster than its competitors. Still, progress can be quite slow. In a revitalization, by contrast, dramatic improvement in overall performance typically takes place in five or ten years, and at the end of that time, the company is performing very well relative to its peers.

Another type of favorable change in organizational performance is a turnaround. A turnaround occurs when an organization regains a mediocre

level of performance after surviving through a critical period where its survival is threatened. Turnarounds have generated considerable interest lately in the wake of recent successes at Chrysler, British Leyland, and other large companies, and the external and internal conditions required for turnaround success have received a good deal of study in the last few years.⁵

One difference between a turnaround and a revitalization relates to the state of the organization before and after the change. Before a turnaround, the organization is facing a serious crisis, while before a revitalization, the organization's survival is not seriously threatened. After a turnaround, an organization is simply surviving, while after a revitalization, the organization has achieved superior performance relative to other companies in its industry. One other difference is the typical time-frame of a turnaround -- usually two or three years, rather than five or ten.

The last type of favorable change is a recovery. A recovery is similar to a revitalization, except that the period of substandard performance directly preceding the transition is very short. In other words, a recovery occurs when a high-performing organization stumbles through a brief period of mediocre or poor performance but then regains its previous performance level. Boeing's rebound from the SST cutbacks of the early 1970s is an example of a recovery. Three to five years appears to be a typical time-frame for a recovery.

Figure 1 shows stylized performance profiles for these four types of favorable organizational change. The approaches and techniques required to

Insert Figure 1 about here

TYPES OF TRANSFORMATIONS IN LARGE COMPANIES

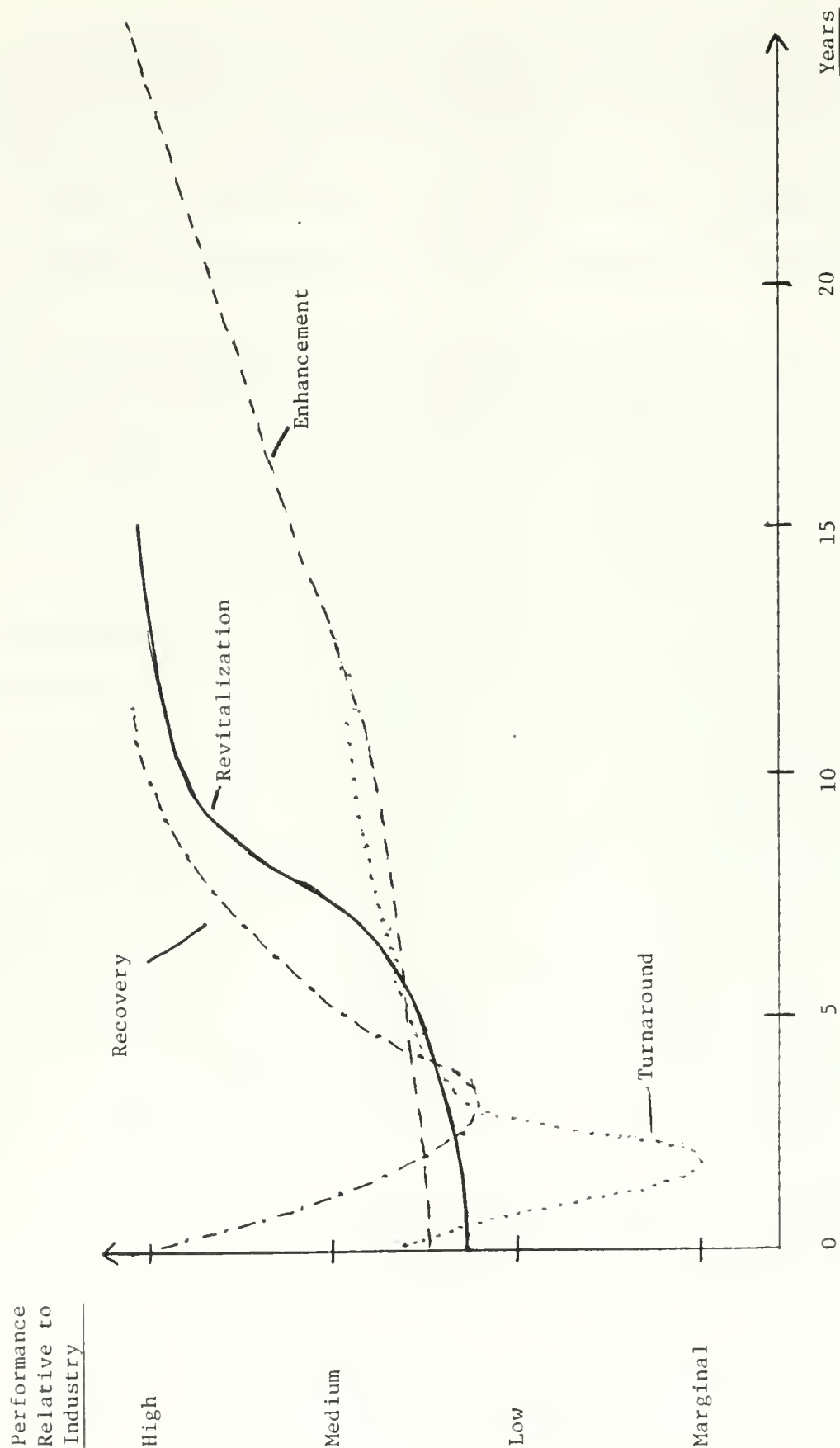


Figure 1

manage these different types of change are likely to differ. For example, cash management and short-term asset restructuring are probably more important for managing turnarounds than for revitalizations or recoveries. In the real world, however, these distinctions are often fuzzy. Since most large companies achieved outstanding performance at some point in their histories, the distinction between a recovery and a revitalization depends on how long the company's problems persisted before its upturn began. Since revitalizations as well as turnarounds are usually preceded by a period of low performance, the distinction between these two types hinges on the seriousness of the downturn, the speed of improvement, and the ultimate success of the effort. To complicate things further, there are some examples of turnarounds which evolved into full-blown revitalizations. In fact, one of the companies studied here (ConAgra) followed this pattern. Thus, while these four types of change can be distinguished in principle, they are likely to show some similarities in practice.

Data Sources

The 17 revitalizations studied are shown in Table 1. This sample was

Insert Table 1 about here

compiled from various sources, including articles in academic journals, business periodicals, interviews with company employees, consultants, industry experts, and other knowledgeable outsiders. Each company was

REVITALIZED COMPANIES

<u>Company</u>	<u>Years of Revitalization</u>	<u>Key Players</u>
<u>I. Extensive investigations</u>		
ConAgra	1975-83	Mike Harper
Hershey Foods	1974-83	Bill Dearden Dick Zimmerman
<u>II. Interview(s) with top officer(s)</u>		
Cabot Corporation	1969-80	Bob Charpie
Dana Corporation	1969-78	Ren McPherson
Emerson Electric	1954-71	Buck Persons
Harris Corporation	1958-78	George Dively Dick Tullis
<u>III. Public sources</u>		
First Boston	1978-83	George Shinn
Fokker (Holland)	1977-83	Swarttouw
Geico	1976-83	Jack Byrne
K-Mart	1963-72	Harry Cunningham
Litton Industries	1975-80	Fred O'Green
R. H. Macy	1974-82	Ed Finkelstein
NEC (Japan)	1967-80	Kobayashi Hattori Ouchi
SAS (Sweden)	1981-???	Jan Carlzon
Standard Oil of Indiana	1968-80	John Swearingen
Texas Commerce Bank	1967-82	Ben Love
Toyo Kogyo (Japan)	1973-84	Murai Yamasaki

Table 1

subjected to several financial screens to ensure that its performance during the revitalization actually fit the definition given above. However, because of the unsystematic sampling procedure used, we do not suggest that this list is exhaustive or even representative of the population of all revitalized companies.

The financial performance of the ten publicly held non-financial U.S. corporations included in this study is shown in Table 2.⁶ Each company's

Insert Table 2 about here

return on total capital, sales growth rate, and extraordinary return to stockholders (appreciation plus dividends minus the average return for the stock market as a whole) were calculated. Percentile rankings relative to industry peers were also estimated where this information was readily available.

Taking all ten companies together, return on total capital during these revitalizations increased from an average of 8.2% (the 38th percentile relative to other companies in the same industries) to 13.4% (the 86th percentile relative to other companies in the same industries). On average, sales in constant dollars grew at an annual rate of 10.1% during the revitalizations, moving these companies from the 47th to the 76th percentile in 5-year compound sales growth relative to other companies in their industries. Extraordinary return to stockholders averaged 1150% on an investment made at the start and liquidated at the end of the revitalization period, an average annual return of almost 25% per year above the market as a

REVITALIZED COMPANIES (U.S.)*

PERFORMANCE TRENDS

Company	Year	Return on Total Capital (ROTC)		Sales Growth		Return to Shareholders	
		5-yr average	Percentile	Percentile	CGR(def)**	Total	Extraordinary Yearly Average
Cabot	1969	6.8%	55	91	9.9%	412%	12.5%
	1980	13.0	94	94			
Con Agra	1975	11.0	15	43	17.9%	1782	37.7
	1983	15.5	96	100			
Dana	1969	10.3	87	62	7.8	379	14.2
	1978	12.8	74	95			
Emerson	1954	8.6	--	--	16.7	1902	17.8
	1971	15.2	94	77			
Harris	1958	9.8	--	--	10.0	1053	11.9
	1978	13.2	94	94			
Hershey	1974	11.5	58	43	7.1	312	12.0
	1983	12.9	84	100			
K-Mart	1963	5.7	--	34	20.3	2559	38.3
	1972	12.4	94	100			
Litton	1975	1.4	7	23	-3.4	1886	63.2
	1980	12.6	66	0			
Macy	1974	8.6	25	44	2.8	772	25.5
	1982	14.3	93	70			
Standard Oil (Indiana)	1968	8.4	21	34	11.5	428	11.8
	1980	12.4	70	35			

* Excludes financial service companies

** Average annual compound growth rate (deflated by Consumer Price Index)

whole. Such impressive returns are usually thought possible only in successful start-up companies. Yet, these ten companies averaged over \$1 billion in sales (over \$2 billion in 1983 dollars) and had been in existence 67 years on average before their revitalizations began.

Data about the process of change in these companies came from a variety of sources: interviews with executives, managers, and Board members of revitalized companies, annual reports, business school cases, articles in business periodicals, autobiographies, official histories, and other secondary sources. Table 1 classifies the companies by source of data. In two companies (ConAgra and Hershey Foods), extensive interviews were conducted with most top officers and a number of middle and lower level managers as well. Annual reports and company documents written during the revitalization period were also reviewed. In four companies, at least one lengthy interview was conducted with a top officer, usually the CEO at the time of the revitalization. Here, too, annual reports and some company documents were reviewed. In eleven companies, information about the revitalization was obtained from public sources, principally annual reports and articles in business periodicals.

REVITALIZATION FRAMEWORK

These 17 revitalizations are quite diverse. For instance, while Dana Corporation improved its performance by increasing productivity in its traditional businesses, Cabot Corporation leveraged its dominant market position in carbon black to build fast-growing new businesses in specialty metals and energy. Despite such differences, however, the research revealed many common themes in the revitalization process across these companies. The

framework described below provides an integrative, impressionistic summary of these common elements. Of course, because this research studied mainly successful revitalizations, some or all of these elements may also be present in companies which attempted revitalizations that did not succeed.

The revitalization framework is illustrated in Figure 2. It contains

Insert Figure 2 about here

four elements, all of which were present in the successful revitalizations we studied:

- A Will to Change -- a conviction within the top management group that change is needed, and a commitment to take action based on that conviction, even though it will shake up standard routines and may require personal sacrifices along the way.
- A Vision of the Future -- a simple, compelling view of the future -- what the company can become -- that is communicated widely throughout the company.
- Championing Leadership -- people throughout the organization (at the middle and bottom as well as at the top) who commit themselves to pushing the revitalization forward.
- Momentum-Building Activities -- a flow of demonstrably successful decisions and actions that work to sustain and broaden the change effort over time.

As Figure 2 indicates, in the revitalizations studied here, the first two elements (a will to change and a vision of the future) were influenced primarily by top management. The other two elements (championing leadership and momentum-building activities) describe efforts taken primarily by middle and lower level managers and non-managerial employees. Top management, however, played a major role in stimulating, encouraging, controlling, and diffusing these efforts. The arrows linking all four elements in Figure 2

REVITALIZATION FRAMEWORK

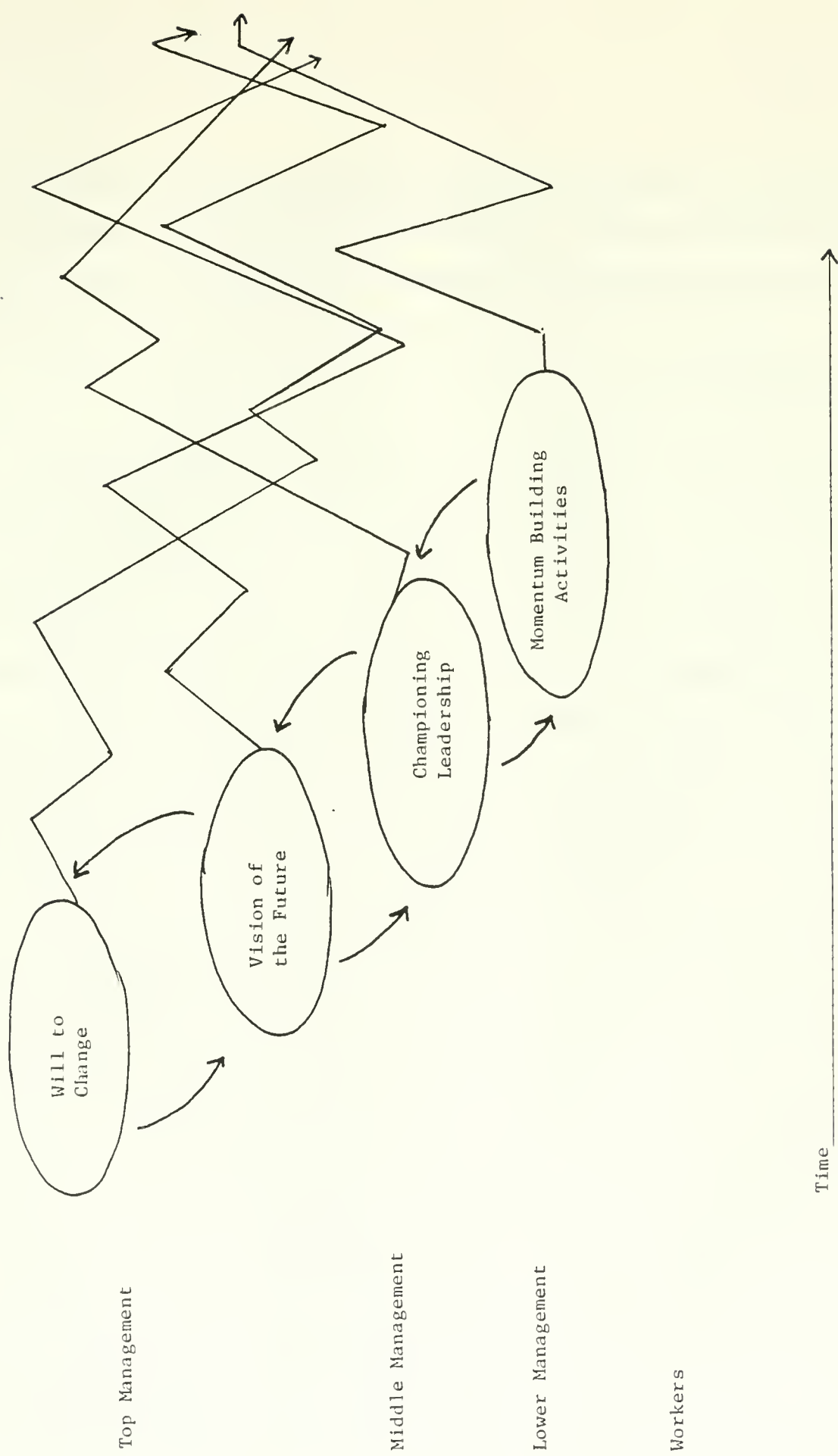


Figure 2

indicate that each element reinforced -- and was reinforced by -- all the others over time. Rather than follow a clear sequence, all four elements were visited and revisited many times as the revitalizations evolved.

Will to Change

As trite as it may sound, the first stumbling block to revitalizing a large company is generally a lack of will to change within its top management group. A will to change is motivated in part by a strong felt need for change. Sometimes, the company is in crisis, and the need for change is obvious. ConAgra was near bankruptcy, with over \$160 million in debt and only about \$30 million in equity when Mike Harper was brought in from Pillsbury in 1974 to turn the company around. Emerson Electric had endured a lengthy strike and faced further severe losses when Buck Persons was brought in as CEO from Lincoln Electric in 1954. In turnaround situations like this, the need for change is clear at the beginning.

In other situations, when the need for change is not so obvious, it generally begins with a realization by one or two senior managers that the external environment (customers, competitors, technologies, government regulation, etc.) is changing, and that the company is unlikely to prosper if it continues doing business as usual. As Rosabeth Kanter points out, it is not environmental pressures per se, but the perceptions of those pressures held by key managers that motivate a will to change.⁷ For those managers who perceive a threat, change is seen as crucial to improving the company's performance and fulfilling the expectations of its stakeholders. This was clearly the case at Hershey Foods Corporation. CEO Bill Dearden's will to change was born of a concern that Hershey was "on the downward slope" and

needed revitalization if it was going to continue to support the Milton Hershey School, the company's major stockholder. (Dearden grew up at the Hershey school, which certainly strengthened his resolve to improve the performance of the school's main asset.)

Usually, change is seen by senior managers as an opportunity as well as a threat -- a way to make more money for the company and for themselves, too. When Mike Harper left Pillsbury to take charge of ConAgra, he saw an opportunity to rebuild a virtually bankrupt company into a profitable, growing enterprise once again. Bob Charpie felt this same sense of opportunity when he left Bell & Howell to become CEO of Cabot Corporation. Through stock ownership, both executives stood to gain personally by improving their companies' performance, and they made sure that other managers had the potential for long-term personal gain as well.⁸ The will to change is strongest when both positive and negative incentives -- the carrot and stick -- work together in the same direction.

Wherever the felt need for change originates, it is rarely met with immediate agreement among all top officers. And, since senior managers have considerable power to resist new initiatives and undercut the will to change if they are not "on board," an entire revitalization effort can be jeopardized unless the need for change is accepted by everyone in the top management group. In all the revitalizations we studied, conflict among members of the top team regarding the need for change was faced head-on early in the process. Most of the revitalizations started off with a series of management meetings to educate top managers about the need for change and influence them to accept its implications. Outsiders were often hired into key positions in order to help forge new alliances, occasionally replacing older managers who were unwilling to commit themselves to the idea that

change was needed. The goal of all these efforts went beyond achieving passive agreement. Revitalization leaders tried to instill in other top managers a deep, lasting conviction that major change was truly essential.

According to conventional wisdom, once top management has developed a will to change, they make the strategic decisions that define the actions required of subordinates and communicate these decisions down the line. In fact, in the revitalized companies, the need for change itself was made concrete and communicated widely throughout the company. Senior managers spent many hours expanding the circle of people who accepted the need for change and prompting them to act on their beliefs. The process resembled recruiting followers to a new political program or attracting disciples to a new religious movement more than implementing a new corporate strategy.

Instilling a will to change down at the roots of a large company is an exercise in persuasive communication which depends for its success on the salesmanship of senior managers, the sophistication of organization members, and the degree of trust members have in management. While there are a myriad of techniques available to help managers communicate the need for change, the most important seems to be personal persuasion by the change leader.

McPherson of Dana, Carlzon of SAS, Harper of ConAgra, and Dearden of Hershey all called themselves "salesmen" or "preachers." (Dearden: "I'm a salesman, and I'm in shape, and there's no worse combination. I can go an all night!")

An important function of this communication process was creating a sense of community or "family" throughout the company that could counter potentially divisive in-group/out-group tensions. When Rene McPherson was named President of Dana Corporation in 1968, he began holding "town meetings" in Dana's plants to give employees a chance to talk directly with him about anything they felt like. Held in warehouses between shift changes to

maximize access, they were completely voluntary but always well attended. ("No plant manager ever put enough chairs out.") Hundreds or even thousands of employees would sit on folding chairs listening to McPherson speak, and many would queue up in front of floor microphones waiting to ask him questions as he roamed through the audience.

Outside media and press coverage were often used to communicate the need for change and provoke debate inside the company. Dana Corporation's use of corporate image advertisements, like one which proclaimed "Talk Back to the Boss" in large block letters, helped communicate top management's commitment to building a more democratic workplace to workers (and their bosses). Press reports and other forms of outside publicity can be very effective in reinforcing employees' felt need for change.⁹

Rational arguments and persuasive presentations, while important, don't work with everyone. In any large company, there are influential doubters at many levels whose resistance must be neutralized if they cannot be convinced of the need for change. One source of resistance arises from the vested interests of key individuals and groups that cause them to defend the status quo. Early in Dana's revitalization, McPherson decided to make a frontal assault on the vested interests of middle managers who, he thought, stood to lose most from the changes he was proposing. In a kind of organizational "pincers movement," he and his top team formed an alliance with the assembly-line workers in Dana's plants to apply pressure to managers and supervisors in the middle. (McPherson: "You can't convince managers to accept changes like the ones we wanted. You've got to use power.") As with any political strategy, McPherson's was not without risk. ("I was almost fired six times...that I know of.") Still, this type of political strategy is often necessary when dealing with opponents who, because of self-interest

or legitimate disagreements, question the need for change.

Establishing a will to change is not a one-time proposition. For a revitalization to be successful, the will to change must be reinforced again and again by top management. Every revitalization leader we interviewed emphasized how often he had talked about the need for change. And every one of them saw avoiding complacency (i.e., sustaining the will to change) as his biggest challenge for the future.

Vision of the Future

Creating a strong will to change, by itself, was not enough to motivate a revitalization. It had to be coupled with a clear vision of how the company could achieve superior performance. In every case, there was strong evidence that a core group of managers shared a similar idea about what their company would look like when it got wherever it was going. This vision was brought to life in slogans and phrases that rang through executive suites and employee cafeterias. CEOs described it to investment analysts and other industry executives. Presidents gave speeches and presentations about it. Reporters discussed it in national business periodicals. It leapt out from the pages of annual reports. In the revitalizations we studied, simple, compelling visions were pervasive.

The content of these visions was quite diverse. The core of McPherson's vision for Dana Corporation was boosting productivity by "treating workers like adults." As soon as he was named President, he launched a "paperless people involvement" program by throwing out all the old corporate policy manuals and substituting for them a two-page statement of purpose and philosophy -- McPherson's vision for Dana -- stressed the

importance of face-to-face communication between managers and workers. Every manager and supervisor had to encourage opinions and ideas from his people, implement those that had merit, and explain why the others could not be used.¹⁰

Harper's vision for ConAgra was very different: to become "#1" -- the best-earning food company in the U.S. Later, this vision was refined to emphasize maximizing shareholder wealth by sustaining a high return on common equity in all of its businesses. While the goal of maximizing shareholder wealth sounds abstract, Harper's concern for ConAgra's shareholders was quite concrete. Two weeks before joining the company, he attended a tense annual meeting and was cornered by two short grey-haired ladies from western Nebraska who had driven all night to come to the meeting. Dividends from ConAgra's stock were their only source of income, and they wanted to know when the company was going to start paying dividends again. ("Those two ladies had an impact on this company.")

While the content of the visions varied, they shared several common features:

- They were wholistic, integrating strategic, cultural, and operating elements.
- They were simple and down to earth, easily summarized in plain language.
- They were compelling and evocative, capable of appealing to people's hearts as well as their minds.
- While they emphasized new directions, they tried to reconcile the new with the old.

The revitalization visions generally addressed broad strategic issues: what customers to serve, what products or services to offer, what core skills were needed to succeed in the business (Ansoff, 1965). For example, Harper's strategic vision for ConAgra was to remain committed to "basic foods" (commodities and basic packaged foods), to grow these core businesses through internal development and acquisition, and to become low-cost producer in all

of them. Harper, who had run Pillsbury's chicken business, knew that cyclical businesses like chicken farming could be profitable over the long run. Thus, despite advice to the contrary from a group of investment analysts who wanted ConAgra to generate "stair-step earnings," Harper and his colleagues decided that the company could live with cyclicalities if they could realize high trend-line profits through the cycles. (Harper: "This company is not going to be run by Wall Street!") In line with this vision, ConAgra's financial goals emphasize a multi-year perspective -- more than 20% return on equity and more than 14% per year trend line earnings growth.

In addition to dealing broadly with strategic issues, revitalization visions also identified a core set of values which characterized the new thrust. Teamwork, increased responsibility for results, greater autonomy for people and groups far from the top, and careful planning were core values for many of these visions. Slogans were used to capture and communicate these values. "No stair-step earnings," "Productivity through people," "Leadership begins at the top," and similar slogans conveyed strong, clear meanings to managers and workers alike. In fact, one of Dearden's maxims, "Leadership begins at the top," was repeated by several of the managers we interviewed at Hershey, suggesting that it was well integrated into the culture of the company. Slogans were also important at ConAgra. During one negotiating session for the acquisition of Armour Food from Greyhound, ConAgra's managers repeated the company's 20% return-on-common-equity goal so often that Greyhound's CEO accused Harper of "having it tattooed on their shorts."

In many cases, these values were not really new: they recast traditional values in a new light. Harper's emphasis on low cost production reinforced a tradition of cost leadership which Harper's predecessor, Allan Mactier, introduced to the company in the 1960s. When Bill Dearden became

CEO of Hershey Foods, he resurrected many of Milton Hershey's personal sayings and used them in his own speeches. He even moved Hershey's corporate headquarters back into Milton Hershey's old home, which had been used as an executive country club since Hershey's death.

Most visions began as highly personal expressions of the individuals leading the revitalizations. Mike Harper wrote a "white paper" which became the first draft of ConAgra's new "philosophy." Rene McPherson created Dana's one-page statement of corporate goals and policies. Bill Dearden wrote down his own "personal credo" and published it as part of Hershey's corporate policy manual. Why did these leaders feel confident enough in their personal values to impose them on their companies? For one thing, in most cases they had already tested out their visions in other operations they had managed before. McPherson of Dana pilot-tested many of the people-oriented management techniques he introduced as Dana's president when he was general manager of the company's Spicer Division. Dearden of Hershey stressed planning and marketing throughout the eighteen years he spent in sales and general management at the chocolate company. Harper of ConAgra tested and refined his managerial philosophy at Pillsbury as he rose to senior levels at that company. Carlzon of SAS tried out many elements of his management approach when he directed Linjeflyg, the Swedish domestic carrier.

The revitalization visions were syndicated early on with other top managers. Off-site retreats were used to clarify the vision and develop commitment to it. At Emerson Electric, Persons held his first planning conference in 1955 on an ore boat moored in the middle of the Mississippi River. At ConAgra, Harper convened a meeting of seven key board members and managers at Vail (a ski resort in Colorado) to decide what should be done with the company. According to Harper, this three-day meeting was "the most

important event in the history of this company." As with establishing the collective will to change, the purpose of these meetings was to generate active commitment to the vision, not just passive support.¹¹

Once top management was committed to the vision, extensive personal travel, appearances at group gatherings, and review processes were used to communicate it throughout the company. A climate of openness was created, where seniors managers made themselves accessible to subordinates and openly invited their ideas and comments. In the early days of SAS's revitalization, Carlzon spent a great deal of time flying around on SAS flights delivering sermons on customer relations to flight attendants, pilots, baggage handlers, ground agents, and anyone else who would listen. ("Customer relations are first, second, and third in importance around here." "We've got to be one percent better in a hundred details, not one hundred percent better in one.") When Sumitomo Bank sent its Tokyo branch head, Tsutomu Murai, and four other executives to turn Toyo Kogyo around in 1974, Murai tried to replace an authoritarian, top-down tradition with "an atmosphere of openness."¹²

ConAgra used a different approach to develop commitment to a new vision. After Harper drafted his "white paper" laying out his corporate philosophy for ConAgra, he initiated an elaborate review process for the philosophy. Most managers and many non-managerial employees were asked to meet in small groups to review the statement and add points they felt were missing. Sitting together in small discussion groups, employees would argue over the wording of a sentence for hours. This process, which one executive called "a tedious, time-consuming process of debating trivia," took several months to complete. Once the philosophy was debated, signed off, and published, though, it was accepted and "owned" by most of the key people in

the company. (Harper: "It was a team-building process. We were building our vocabulary. Then the dam broke, and it went like a flash.")

What did visions accomplish for these companies? Arguably, their most important function may have been to demonstrate and reinforce management's commitment to charting a new course for the company. When people make voluntary, public statements of support for a course of action, they are likely to become more committed to that action.¹³ Thus, managers who go on record promoting a new vision grow more committed to it. Since senior managers' commitment is critical to success in a revitalization, this commitment-building function is a crucial one.

Visions also helped define action arenas for organization members. They helped people identify and champion actions that could help move the revitalizations forward. To do this, the vision could not be too detailed: it had to be broad enough to let people express their own ideas and enthusiasms within it. On the other hand, in order to have impact, the vision had to be interpretable in concrete terms as well. This was accomplished by linking the visions with new planning systems.

New (or radically reworked) business planning processes were established almost immediately in all the revitalized companies. At ConAgra and Hershey, divisions' new strategic plans were forbidden to contain any financial numbers at first. In Harper's words, they were supposed to discuss "dreams and schemes," to get ConAgra's managers to "think strategically." Managers were asked to address questions like "Where do you see the business going?" and "What kind of capital is required?" Strategic planning processes like ConAgra's and Hershey's were not designed to provide more detailed information to corporate policy-makers so that they could make better centralized decisions. They were intended to force operating managers to

understand their businesses better and commit to targets and goals they felt they could achieve. Over two or three years, planning meetings evolved from mechanical presentations to organic strategic conversations between business units and corporate headquarters.

Visions also gave employees a sense of stability to counteract the major changes they were being asked to make in their everyday routines. A concrete, compelling vision of the future can help people unfreeze prior attitudes and commitments and start thinking and acting in new ways. It can help develop a collective sense of "system readiness" -- a willingness to live with the anxiety of anticipated uncertainty.¹⁴

Finally, visions helped set appropriate expectations for outside constituencies. For example, several managers mentioned the usefulness of a clear vision in communicating with the investment community.

Championing Leadership

A strong will to change coupled with a compelling vision of the future are two essential elements for a successful revitalization. But the companies in our sample weren't revitalized by brilliant strategic visions or hard-driving CEOs. Success came from the combined efforts of many people focusing on the business fundamentals and doing lots of little things very well. It took a special kind of leadership -- "championing leadership" -- and a multitude of "momentum-building activities" to make this happen, and where they weren't present, nothing much changed.

In the case of AM International, Ash and his top team communicated a strong will to change from the time they came on board. (Replacing almost 80% of the company's senior managers with outsiders certainly helped

reinforce the need for change.) While Ash's vision for the company may have been overambitious, few observers have faulted its general direction. Furthermore, Ash and his top team communicated the vision aggressively and with a good deal of sophistication. The failure of Ash and his team to revitalize AM International came from an inability to couple their will to change and their vision of the future with concrete actions that could be initiated and implemented by lower level managers and workers. Ash and his team failed to develop championing leadership down the line, and, as a result, generated too few demonstrable successes that could show a path and build credibility in the vision. In the words of Richard Black, who replaced Ash as CEO, "...[M]anagement was not in touch with reality. It was like a Walter Mitty adventure."¹⁵ In sum, AM International's failure was not a failure of will or strategy, but one of implementation and execution.

Champions are advocates who fight persistently for their ideas. The key role champions play in spurring the development of new products and processes inside organizations has been recognized at least since the early 1960s, when Don Schon discussed the importance of champions for innovation in a classic Harvard Business Review article.¹⁶ The idea that champions are important outside the realm of new product and process development is rather new. Peters and Waterman discuss the important role champions play in generating innovation in their sample of "excellent companies."¹⁷ Kanter has described "change masters" in a way that suggests champions: individuals with enough focus and drive to get new projects started and finished, despite resistance from superiors, peers, and subordinates, and the conservatism inherent in most organizations.¹⁸ Because this concept is somewhat broader than the original concept of product champions, we call it "championing leadership."

The revitalization leaders provided the most prominent examples of championing leadership: McPherson at Dana, Dearden at Hershey, Charpie at Cabot, Persons at Emerson, Harper at ConAgra, Carlzon at SAS The list goes on and on. These revitalization leaders were more than "change agents." They were people working to reshape the fundamental character of their companies. As a result, these revitalization leaders were more ideological than their business-as-usual counterparts. They knew they had to reshape how employees thought about their own roles and responsibilities if they were going to affect the company in any lasting way. Thus, they approached their roles with dramatic flair, aware that their actions had to be "larger than life" if they were going to have an impact on many others. Rather than manage by exception, they managed by symbols, often attending to apparently mundane details which then became symbols of their goals and priorities.

A fascinating example of this symbolism was captured in an anecdote mentioned in three different interviews at ConAgra. Whenever Mike Harper discusses ConAgra's financial performance (e.g., during negotiations for an acquisition candidate, in conversations with key executives whom he's trying to induce to join the company, in discussions with outsiders), he begins by opening the company's annual report ceremonially to pages 4 and 5, where the firm's financial objectives and results have been printed consistently since 1977. For ConAgra's managers, this ritual has come to symbolize the importance of considering every decision in light of the growth and profitability targets established in 1976 and achieved every year since then.

Revitalization leaders were willing to face conflict, to use their power to deal with others who were unwilling or incapable of change. Because of this, all the revitalizations had some casualties. The head of an

acquired company was deemed incapable of leading his operation in a new direction, and he was let go. A sales force built around an old-boy network of salesmen promoted solely on the basis of seniority was transformed into a young, aggressive sales and marketing organization over several years by a series of early retirements and outplacements. On the other hand, there was surprisingly little talk of "house-cleanings" or "blood baths." With rare exceptions, revitalization leaders persuaded and cajoled managers already in place to contribute their efforts to the new thrust.

Conventional accounts of turnarounds emphasize the role of the leader (or "turnaround artist") as decision-maker and architect of the change. Like turnaround artists, revitalization leaders made decisions and planned new structures. This highly visible activity of the revitalization leader, however, was only a small part of the championing leadership evident in these revitalizations. Most of the change in these companies was not driven down from the top; it bubbled up from the bottom. Individuals at many levels who accepted the need for change and believed in the vision signed on as champions in their own operations, sought out ways they could contribute to the overall effort, and often made substantial progress in changing the way things worked. By personal example, the revitalization leaders modeled championing leadership for potential champions way down in their organizations. Their own activism legitimated an activist style down the line. Since the ultimate success of every revitalization depended on the efforts of people throughout the company to get new programs going, this may have been more crucial than all the decisions and plans the leaders made on their own.

Championing leadership was evident at the division manager level at Hershey Foods. When Bill Dearden took over as CEO of Hershey Foods in 1976,

he asked Earl Spangler, president of the chocolate company, and Joe Viviano, president of the pasta division, to develop new strategic plans for building their businesses. According to Spangler, "we buckled ourselves into some hotel seats for a few days" to come up with a plan. Viviano started meeting with his staff on Saturdays and Sundays at the pasta plant to plot a growth strategy. ("We had the heat shut off on week-ends to cut costs, so we worked in parkas and gloves. I remember writing 'We want to be #1' on the board at that first meeting, and everybody laughed.") By 1981, sales in Hershey's chocolate business had grown to over \$1 billion, a target that Spangler and his staff had originally set for 1985, and operating margins and return on capital both exceeded profitability objectives. By 1985, Hershey's pasta sales were ten times what they had been in 1975, and with the acquisition of Pillsbury's American Beauty division in 1984, the company overtook the Mueller division of CPC International to become the largest pasta manufacturer in the U.S.

Spangler and Viviano are prototypes of the championing leaders who are crucial to revitalizing a large company. Both grew up in their businesses and understood them from the bottom up. Both set clear goals that were consistent with the overall vision Dearden had for Hershey. Both relied on their subordinates to generate growth, just as Dearden relied on them. Both were given enough autonomy to get things done, subject to the expectation that "You do what you say you're going to do," and they did the same for their people. And both were rewarded for their efforts. A new incentive plan gave them bonuses every year their operating income exceeded the previous year's and achieved at least 90% of plan. With several trigger points, this plan could pay off generously for managers like Spangler and Viviano who grew their businesses at a rapid clip.

Finding and motivating champions is a key responsibility for top managers in a revitalization. The place to look for champions varies somewhat depending on the revitalization's vision. Given McPherson's vision for Dana, blue-collar workers were obvious sources of new ideas and initiatives, and many of his actions were intended to empower champions to rise up from the factory floor. But champions can come from almost anywhere. Anyone who has thought about his or her work long enough to come up with a list of possible improvements is a potential revitalization champion. Sales can be an especially fertile source of champions. Sales personnel are always rubbing up against customer problems, and these problems are quite likely to reflect real opportunities for improving the company's operations. Furthermore, championing leadership requires many of the same skills as selling (e.g., communication, sensitivity to interpersonal cues, enthusiasm). As director and later vice president of sales and marketing for the Hershey Chocolate Company in the late 1960s, Dearden personally hired a cadre of young marketing-oriented MBAs and then sent them out to spend a year or more as sales representatives, calling on the trade. When they returned from the field, they were well-equipped to champion a new marketing vision for the company.

The single most important action which top management took to encourage champions in all the revitalizations we studied was decentralizing their operations and granting more autonomy to people lower down in their organizations. Fokker's revitalization was launched when it spun off from a Dutch-German joint venture (VFW) in 1977. This "demerger" gave control over product development and sales back to Swarttouw and his management group, enabling them to begin designing and building a successor to Fokker's remarkably successful F27.¹⁹ At Hershey, decentralization was accomplished

by establishing product divisions. At Cabot, where all the important functions reported directly to a single Executive Vice President, a product group structure was inserted between the corporate office and the divisions and departments. This structural change allowed each business to be evaluated and treated independently and debureaucratized decision-making considerably. ConAgra chose to emphasize their division managers' independence and autonomy -- as well as their responsibility and accountability -- by renaming its divisions "Independent Operating Companies" and changing their titles to "President." Besides increasing the involvement and commitment of lower-level managers, decentralizing these large companies into self-contained business units increased the number of general managers who interfaced directly with customers in the outside world. Revitalized companies thus became more oriented to their external environments -- i.e., "closer to their customers."²⁰

At Dana, autonomy was pushed down below the plant level by an organizing device called the "store manager" concept. Each department or shop in every Dana plant was considered a quasi-independent "store," and the head of the shop was designated its "store manager." Store managers were responsible for managing all facets of their stores, including production planning, inventory control, quality assurance, reporting, and, ultimately, controllable financial results. The store manager concept was intended to break up a monolithic factory into manageable pieces. It achieved this by reinforcing the same values of autonomy, responsibility, and discipline that McPherson expected from everyone who worked at Dana.

Besides setting up organizational structures and management systems to encourage champions, top management supported them in other ways as well. In general, senior managers tried to create an entrepreneurial climate that gave

as many people as possible an opportunity to get involved and become champions. On the other hand, champions were not coddled. Top management had high expectations for champions, and they encouraged them to set and achieve aggressive -- but realistic -- targets. They also set the stage for champions to compete with each other. When Charpie arrived at Cabot, he decided that he had to generate some spirit among the company's younger managers. ("There were no hungry, clamoring, aggressive young managers who wanted to be President.") He established a new incentive plan to pay big bonuses for performance. He also expanded the distribution list for divisional budget reports to over 50 people to let them compare their own performance with their peers. At Dana, McPherson set up a closed circuit TV system, dubbed the "Dana Today" show, where division and plant sales and profits were updated daily and displayed for all managers (and many workers) to see. ConAgra's emphasis on independent operating companies encouraged friendly competition between them, and Harper reinforced it by awarding prizes to the top IOCs in several categories each year.

Momentum-Building Activities

Besides a will to change, a vision of the future, and championing leadership, the revitalized companies displayed a high volume and fast pace of activities that built credibility and a sense of momentum in the revitalization process. Later actions built on demonstrated successes achieved early on.

In every revitalization, the first step was the same -- finding a new revitalization leader to spearhead the change effort. Although most revitalizations did not involve great failures or crises, bringing in a new

face to establish a clear break with the past and symbolize the new vision was clearly important. On the other hand, unlike turnarounds, insiders were generally preferred over outsiders to lead the revitalizations. Only nine of the twenty-two revitalization leaders listed in Table 1 were brought in from the outside to take over. Other things equal, insiders have a number of advantages over outsiders in orchestrating a revitalization. They understand the organization's capabilities and values and thus have better knowledge of what can and can't be done. They have already established relationships with other members of the top team. Over the five or ten years that it takes to revitalize a large company, these factors are often more important than the additional credibility an outsider might have at the start.²¹

In a revitalization, it is essential to establish credibility quickly so that new champions can be convinced to sign up and contribute. The best way to do this is by achieving some "early wins" which convince people that the program is real.²² In a study of turnarounds in India, Khandwalla found that turnaround leaders searched for "quick pay-off actions" to help them "establish credibility as quickly as possible in order to create enough suspension of disbelief that makes mobilization of the organization for turnaround possible." Making demonstrable improvements in product quality, increasing capacity utilization, and securing large orders were some of the early wins which Khandwalla's leaders used to build credibility and momentum.²³

The newly appointed revitalization leaders started trying to build credibility as soon as they took over. Most initiated a large number of projects and programs, reminiscent of the "first 100 days" of Franklin D. Roosevelt's New Deal. For example, in the first year of his presidency at Dana, McPherson:

- Launched the "paperless people involvement" program
- Began throwing out time clocks, bells, and whistles from Dana's plants
- Started holding "town meetings" in the plants
- Began implementing the "store manager" concept
- Selected a simple productivity index for all Dana's operations (sales per employee) and began publicizing it throughout the company.
- Established an employee stock ownership plan (ESOP)
- Adopted the Scanlon Plan as a productivity experiment in one small plant.

Similarly, in his first year as managing director at SAS, Jan Carlzon:

- Developed a new "Euroclass" marketing strategy to appeal to European business travelers
- Began reconfiguring SAS aircraft to create separate business class sections
- Installed a terminal in his office to monitor the punctuality of flight departures
- Commissioned over 150 project study groups to cut costs and rationalize information flow throughout the airline
- Began implementing the first of these study groups' recommendations -- moving head office staff "out front" to interact with customers
- Published a pamphlet called "Let's Get In There And Fight," aimed at building enthusiasm for the revitalization
- Began holding staff parties in aircraft hangars.

This pattern of activities -- a "fast break" that relied on many initiatives to break old routines and get the revitalization going -- was common to most of the cases we studied.²⁴

Of course, the fast break strategy has one obvious drawback. If some of the efforts do not produce results, credibility will be weakened rather than strengthened. Therefore, it was important to demonstrate that some of the new programs could produce results. (On the other hand, it wasn't necessary for all the programs to be successful; to a degree the diversity of activities allowed some fallout to be forgiven.)

While a fast break can be powerful at the start, it cannot sustain momentum over the five or ten years needed to revitalize a large company. Time is a great enemy of any revitalization. The impact of specific programs on peoples' attention dissipates over a time period much shorter than that required for the revitalization to take hold. Furthermore, the longer a

revitalization takes, the more opportunity there is for other priorities to creep in and sidetrack the process. External conditions can improve temporarily, undermining the will to change. The performance of older, outdated parts of the business can improve under the threat of major change, so that they are no longer so obviously outdated. And, of course, new initiatives can fail, reducing credibility in the entire effort. The natural progression of activity and decision-making from the top down to lower levels in the organization also poses a problem. Even if considerable progress is being made, it becomes less visible to the entire organization and thus less able to build momentum as time goes on.

To counter the effects of time, the revitalized companies kept up a rapid pace of activity on multiple fronts at once which might be called (borrowing again from basketball) a "full court press." By adopting a full court press, a revitalization leader makes organized opposition much more difficult. While a single program or initiative can be resisted with a fair chance of success, multiple initiatives on a broad front can paralyze opponents. Furthermore, a full court press maximizes involvement in a revitalization (as it does in basketball). Thus, it can build commitment to the new vision quickly.

One particular activity that helped build momentum in most of the revitalizations was an aggressive -- but carefully controlled -- program of acquisitions. This was true even in companies like Dana that revitalized their core businesses rather than trying to move into major new ones. Dana made over thirty acquisitions during McPherson's tenure as President and CEO. Hershey Foods, Cabot Corporation, and Harris Corporation all made important acquisitions during their revitalizations. Acquisitions played a major role in Emerson Electric's growth during the Persons era (1954 to

1973), and Emerson has been a frequent acquirer under Chuck Knight. ConAgra made over sixty acquisitions after Harper took over.

While the volume of acquisition activity was high, ConAgra and the other revitalized companies were not trying to assemble financial holding companies. (Harper: "You're damn right we're not a holding company!") These were operating and strategic acquisitions, pursued in line with the revitalization's new vision, not financial "asset plays." They complemented existing product lines, exploited distribution networks, expanded economies of scale. All of the acquisitions in all of the companies were friendly, and writing a buy-out agreement that gave something to both sides was key to making the deal. In almost all cases, managers in the acquired firms were kept on to run their businesses. When Hershey was negotiating for Friendly Stores, for example, Dearden declared, "If we don't get their management team, I don't want the company at any price." Because most of the acquired companies grew quickly under their new parents, most of the old managers are now running much larger businesses than before they were acquired.

How did acquisitions help these revitalizations sustain momentum? For one thing, they demonstrated that the new leadership could take decisive action. In many cases, this contrasted sharply with the caretaker management that had preceded their arrival. Acquisitions also gave lots of people the opportunity to experience change, either directly, if they interacted with the acquired company, or vicariously, if they didn't. They also taught people that there were different ways of doing business, and thus they helped fight the "NIH -- Not Invented Here -- syndrome". Several managers described changes they had made in their own operations based on what they learned from acquired firms.

But simply spending shareholders' assets buying up companies was not

enough to build momentum in a revitalization. Acquisitions had to be demonstrable successes in their own right. When management showed it could turn around an ailing acquiree and bring it back to a growth track (or accelerate the growth of a healthy one), then more and more people began believing in the revitalization and championing more and more projects which contributed to its strength. One of ConAgra's acquisitions tripled its sales in the five years after it was acquired, and the earnings of another one (Banquet Foods) rose almost an order of magnitude. Such dramatic improvements built credibility in ConAgra's revitalization.

In order to sustain momentum in a revitalization over five or ten years, managers and workers must get some short-term satisfactions and feelings of accomplishment from championing new projects that improve their company's performance. Therefore, the revitalization process must be punctuated by events that can provide reinforcement to organization members over the short and medium-term. In the revitalizations we studied, this was achieved partly through the normal processes of goal-setting and results-checking. These annual or semi-annual rituals were supplemented, however, by a wide variety of business and social events that helped build a sense of excitement and enthusiasm in the process. In a sense, these events helped people go beyond merely contributing to the revitalization and helped them celebrate it as well.

Acquisitions were one way of adding excitement and a sense of short-term accomplishment to help people celebrate the revitalization's success. Management workshops and group gatherings were another way of celebrating. One delightful example was a two-day workshop held recently with the senior managers of a prominent Eastern regional bank. After a day and a half of listening, discussing, arguing, eating, drinking, and golfing,

the eighty participants were scheduled to conclude the workshop with group presentations and some final remarks by the bank's CEO. The finale was anything but bankerly. Four groups of 20 bankers each marched onto the stage wearing custom-designed, matching T-shirts. Two of the groups had composed their own songs. (The other two stuck to chanting in unison.) One group had made cardboard signs that spelled out a different slogan on each side. The CEO gave his talk standing on an orange crate -- his symbol for preaching the bank's new gospel -- and he started off by announcing that everyone would find their own orange crates sitting in their offices on Monday. The workshop concluded with an unusual awards ceremony: the CEO and Chairman of the bank called nearly twenty people up front to paste gold foil stars on their foreheads to recognize their contributions to the workshop.

Of course, celebrations like this help build momentum only if there is something to celebrate. They must be linked with real victories on the business battlefield or they quickly lose their power.

CONCLUSION

Planning and implementing a revitalization in a large organization is a supremely challenging task. The revitalization framework and examples discussed here are only a first step in developing a theory of how these major organizational transformations evolve and what factors lead to their success or failure. One important question needing clarification is how revitalizations differ from other large-scale change efforts (turnarounds, recoveries, etc.). A second fundamental question is whether all revitalizations are fairly similar or whether there are different types that should be broken out and studied separately. For instance, revitalizations

in which companies strengthened their core businesses before adding to them (Hershey, ConAgra, Dana) may evolve differently from revitalizations in which companies abandoned or diversified sharply away from their core businesses (Harris, Cabot). This study has emphasized the similarities across many revitalizations, but there were differences, too, and these need to be understood more thoroughly.

Assuming the basic concept of revitalization is valid, many questions about the process remain unanswered. Indeed, each of the four elements in the framework presented here raises many questions to which there are few clear answers. For example, what management actions are effective for convincing people of the need for change in a large company? Who is likely to spearhead a revitalization? Who is likely to lag? How are people persuaded to change their own cultural assumptions with minimum anxiety? How are visions developed? How are they communicated? Is the power of a vision solely a function of the way it is communicated, or does content affect its potency, too? If content is important, what values are likely to aid the revitalization? What values are likely to detract from it? What values are peripheral? What causes lower level managers to champion their own projects in a revitalization? How do these projects build momentum in the overall revitalization? How common is the "fast break" pattern? The "full court press?" Why do they work? How do people decide that a revitalization is credible, rather than just another "program-of-the-month?"

Above all, this study begs many questions about the role of leadership in managing major organizational transformations. James McGregor Burns, Noel Tichy and David Ulrich, and others discuss "transforming" leadership, but there is little research on the concrete behaviors of transforming leaders.²⁵ Studies like this one offer a unique opportunity for studying

leadership behavior in the context of the transformations themselves. This could shed light on some important questions which have perplexed scholars for many years. For example, one key question regarding leaders is how much of their influence is achieved and how much is ascribed. In other words, to what extent is leadership an attributional phenomenon, as Pfeffer and others have argued.²⁶ Examining the revitalization process in detail provides one way to distinguish between ex ante behaviors and ex post attributions and assess the contributions of both.

The style of leadership adopted by the revitalization leaders in the companies studied here was value-shaping leadership in the best tradition of Barnard, Selznick, and Burns.²⁷ These leaders were thoroughly grounded in the basics of their businesses, yet they realized they had to transcend tradition and instill new values in order to revitalize their companies. To do this, they kept their messages simple and repeated them over and over again. Bill Dearden of Hershey, for example, preached his message at corporate staff meetings every Tuesday, at quarterly key managers' meetings that were video-taped and shown throughout Hershey's divisions and plants, at presentations of divisions' three-year and annual plans, at all the sales training classes in the company, at meetings with trade associations, financial analysts, and so on.

Revitalization leaders like Dearden were people-oriented and accessible. They gave subordinates more autonomy, but they also expected more performance, too. Perhaps most important, these leaders inspired enthusiasm (not just compliance) from everyone (not just their senior managers). In this sense, they were certainly charismatic, although Weber's notion of charisma seems too personal and mystical to describe them accurately.²⁸ In fact, aside from a fair share of good fortune, there was

little mystery in these revitalizations. Their success was due mainly to the combined efforts of many people working hard toward a common goal over many years -- the apotheosis of formal organization. Unfortunately, such concentrated bursts of organized energy seem to elude most large companies, even when they need them most.

FOOTNOTES

- 1 References used for source material about AM International include: "Addressograph Multigraph Had a Great Fall," Forbes (September 15, 1973): 88; "AM International: When Technology was not Enough," Business Week (January 25, 1982): 62-68; Louis Kraar, "Roy Ash Is Having Fun at Addressogrief-Multigrief," Fortune 97 (February 27, 1978): 47-52; and Brian S. Moskal, "Richard Black's Precarious Perch," Industry Week (March 8, 1982): 48-51.
- 2 In recent years, organizational researchers have begun developing some descriptive theories of large-scale transformation and change. Burton Clark described the transformation of Swarthmore college in the 1920s and 1930s from a local Quaker college to a highly selective, world-class liberal arts college. Clark documented the process of building Swarthmore's new "organizational saga" (its embodied legend or mission), and his study identified a number of general principles of large-scale change. (Burton Clark, The Distinctive College: Antioch, Reed, and Swarthmore, Chicago: Aldine, 1970) More recently, Richard Beckhard and Reuben Harris, James Brian Quinn, Rosabeth Kanter, Noel Tichy, and others have developed some interesting theoretical ideas about how large companies evolve over time. See, for example: Richard Beckhard and Reuben T. Harris, Organizational Transitions: Managing Complex Change (Reading, MA: Addison-Wesley, 1977); Rosabeth Moss Kanter, The Change Masters: Innovations for Productivity in the American Corporation (New York: Simon and Schuster, 1983); James Brian Quinn, Strategies for Change: Logical Incrementalism (Homewood, IL: Richard D. Irwin, 1980); John R. Kimberly and Robert E. Quinn, eds., Managing Organizational Transitions (Homewood, IL: Richard D. Irwin, 1984); and Noel M. Tichy, Managing Strategic Change: Technical, Political, and Cultural Dynamics (New York: Wiley, 1983).
- 3 Strategies for building grounded theory are discussed extensively in Barney G. Glaser and Anselm L. Strauss, The Discovery of Grounded Theory (Chicago: Aldine, 1967). A complete understanding of the factors affecting the revitalization process would require examining companies like AM International which attempted revitalizations that were unsuccessful, as well as the success stories studied here. Some prominent failures of organizational development interventions are described in Philip H. Mirvis and David N. Berg, eds., Failures in Organization Development and Change: Cases and Essays for Learning (New York: Wiley, 1977). The study of failed revitalizations is a necessary adjunct to this research and is being pursued vigorously now. Nevertheless, at this early stage, when systematic knowledge about transformations of any kind is so fragmentary, identifying any general principles or relationships that apply across different cases seems to be a worthwhile endeavor.

- 4 In a study of secondary source descriptions of 132 major transitions in 36 large companies, Miller and Friesen identified the "entrepreneurial revitalization" as one of nine "archetypes of organizational transition." (Danny Miller and Peter Friesen, "Archetypes of Organizational Transition," Administrative Science Quarterly 25, June, 1980: 268-299) In an entrepreneurial revitalization,

...companies become more aggressive and innovative in dealing with competitors and more imaginative in meeting the needs of customers... Moreover, there is less aversion to taking risks. (p. 282)

In Miller and Friesen's analysis, entrepreneurial revitalizations were characterized by high rationality, innovation, turbulence, heterogeneity, and centralization (but also more delegation). They produced significant performance improvements with relatively low risk. Miller and Friesen's characterization seems similar to the revitalizations studied here.

Tichy and Ulrich use the term revitalization more broadly than it is used here to refer to almost any type of major transformation of a large organization. (Noel M. Tichy and David O. Ulrich, "Revitalizing Organizations: The Leadership Role," in J. R. Kimberly and R. E. Quinn, eds., Managing Organizational Transitions, Homewood, IL: Richard D. Irwin, 1984: 240-264) Allaire and Firsirotu use the term revitalization to include less radical transformations than those discussed here. (Yvan Allaire and Mihaela Firsirotu, "How to Implement Radical Strategies in Large Organizations," Sloan Management Review 26, no. 3, Spring, 1985: 19-34).

- 5 Several authors have attempted to summarize the key elements of successful turnarounds. Based on a study of nine public and private-sector enterprises in India, Khandwalla developed a "tentative prescription" of thirteen steps required for a successful turnaround. (Pradip N. Khandwalla, "Strategy for Turning Around Complex Sick Organizations," Vikalpa 6, no. 3/4, 1981: 143-165) Bibeault analyzed questionnaire results from a sample of 81 publicly traded companies which had severe earnings declines followed by turnarounds. (Donald B. Bibeault, Corporate Turnaround: How Managers Turn Losers into Winners, New York: McGraw-Hill, 1982) From these questionnaires, supplemented by interviews with CEOs from a number of companies that were turned around, Bibeault developed a stage model of the process and identified several keys to successful turnarounds. His study emphasized making a clear break with the past and following the principle that "Cash is King". Other empirical studies of turnaround strategies include: D. G. Schendel, G. R. Patten, and J. Riggs, "Corporate Turnaround Strategies: A Study of Profit Decline and Recovery," Journal of General Management 3, no. 3 (1976): 3-11; Charles W. Hofer, "Turnaround Strategies," Journal of Business Strategy 1 (1980): 19-31; Donald C. Hambrick and Steven M. Schechter, "Turnaround Strategies for Mature Industrial-Product Business Units," Academy of Management Journal 26, no. 2 (1983): 231-248; and Raymond A. Thietart, "Turnaround Strategies for Businesses as a Function of Their Competitive Characteristics," (Unpublished working paper, Sloan School of Management, Massachusetts Institute of Technology, October, 1984).

6 For the non-financial U.S. corporations, financial data was obtained from Standard & Poor's COMPUSTAT tapes, and stock price data was obtained from the University of Chicago's Center for Research in Security Prices (CRSP) tapes. Forbes's "Annual Report on American Industry" was used to provide relative rankings of companies in their primary industries. For financial institutions like Geico (insurance), First Boston, and Texas Commerce Bank, performance indicators appropriate for financial institutions were used, instead. Financial information for non-U.S. companies is more limited, and less stringent tests were used.

7 Kanter, The Change Masters, p. 281.

8 While ConAgra was still trying to dig itself out of its difficulties in 1974, Harper convinced the company's Board of Directors to approve an unusual stock purchase plan for its top officers. These executives were loaned money by the corporation at market rates to exercise immediate options on ConAgra common stock. If the company turned around and its stock price rose, these executives stood to gain. On the other hand, if the stock price fell, they would still be personally liable to ConAgra for the fixed amount of their notes. Obviously, this arrangement, while it was generous, put the recipients at some personal risk. Seven of the eight eligible officers believed in ConAgra's future enough to purchase stock under the plan, and, as Table 2 indicates, their investment was quite profitable.

9 When General Motors, Ford, and Chrysler began trying to convince the United Auto Workers in the late 1970s that business as usual was no longer enough, the adversarial relationship between management and labor institutionalized over the years in the auto industry required dramatic moves to cut through the barriers and develop a shared sense of responsibility. Nothing communicated the need for change more dramatically than the large financial losses reported by the major auto manufacturers during the 1978-82 period. One senior GM executive admitted that GM's announcement of a \$762 million loss in 1980, its first since 1921, had done more to convince the UAW of the need for change than a decade of management-labor conferences.

10 An excellent description of Dana's "paperless people involvement" program is contained in Charles H. Gibson, "Paperless People Involvement -- Management Philosophy," S.A.M. Advanced Management Journal (Summer, 1975): 4-11.

11 Barrett and Cammann capture the spirit of this commitment in their description of an offsite meeting held by National Steel Corporation's senior managers to agree on a mission for that company:

After a final review of each element of the [mission] statement...the group spent considerable time discussing what this mission statement really meant to the organization and to each member of senior management. Several people underscored the importance of commitment, both by each individual and by the group as a whole, if the mission was to be meaningful. (A. Lee Barrett, Jr. and Cortlandt Cammann, "Transitioning to Change: Lessons from NSC," in J. R. Kimberly and R. E. Quinn, eds., Managing Organizational Transitions, Homewood, IL: Richard D. Irwin, 1984: 223-224.)

- 12 A fascinating account of Toyo Kogyo's revitalization is contained in Pascale, Richard J. and Thomas P. Rohlen. "The Mazda Turnaround." Journal of Japanese Studies 9, no. 2 (1983): 219-263. Murai explained his management philosophy to Pascale and Rohlen this way:

I wanted to have Toyo Kogyo employees understand my personality and create an atmosphere of openness. For example, I looked for opportunities to drink with younger people and when I had time, I looked up union officials out on the shop floor and joined them in a cup of coffee...I spent almost no time by myself at Toyo Kogyo. If there was any extra time, I went out to union offices. My secretary worked on the principle of scheduling as many meetings as possible...In two years, I met every manager personally and with at least 2000 of our hourly employees. (p. 234)

- 13 The relationship between attitudes and behavior has been a central topic in social psychology for many years. In the past few years, psychologists and organizational researchers have identified many situations where the influence of behavior on attitudes is as strong or stronger than the influence of attitudes on behavior. The dynamics of these "behavioral commitment effects" are demonstrated and discussed in two provocative articles: Barry M. Staw, "Knee-Deep in the Big Muddy: A Study of Escalating Commitment to a Chosen Course of Action." Organizational Behavior and Human Performance 16 (1976): 27-44; and Gerald R. Salancik, "Commitment is Too Easy!" Organizational Dynamics (Summer, 1977): 62-80.

- 14 The concept of "system readiness" was developed by Craig C. Lundberg in "Strategies for Organizational Transitioning," in J. R. Kimberly and R. E. Quinn, eds., Managing Organizational Transitions (Homewood, IL: Richard D. Irwin, 1984): 60-84. Ed Schein describes the need for psychological safety in turnaround situations in Edgar H. Schein, Organizational Culture and Leadership (San Francisco: Jossey-Bass, 1985): p. 295.

- 15 "AM International: When Technology was not Enough," Business Week, p. 62.

- 16 Donald A. Schon, "Champions for Radical New Inventions," Harvard Business Review 41, no. 2 (March/April, 1963): 77-86.

- 17 Thomas J. Peters and Robert H. Waterman, Jr., In Search of Excellence: Lessons from America's Best-Run Companies (New York: Harper & Row, 1982).
- 18 Kanter, The Change Masters, op. cit.
- 19 Theo Van Oers and C. Buitenhuis, "Revitalization of Enterprises" (Lecture presented at the Annual Meeting of the Strategic Management Society, Philadelphia, October, 1984).
- 20 Peters and Waterman, In Search of Excellence, op. cit.
- 21 Most large companies have talented managers in out-of-the-way locations who might be considered for leading a revitalization. When NCR Corporation's Board of Directors realized the company had to transform itself from an electromechanical adding machine manufacturer into an electronic computer systems supplier, they brought Bill Anderson back from NCR Japan, and promoted him up through several levels to Chief Operating Officer. Since Anderson was an insider, he knew how the company worked and could get things done efficiently. Since he was new to NCR's corporate offices, he wasn't tainted with the failures of the past. Since he had been competing successfully in NCR's most advanced markets, he could champion a vision to help NCR compete in its new environment.
- 22 The value of "small wins" in building credibility is discussed in general terms in Thomas J. Peters, "Symbols, Patterns, and Settings: An Optimistic Case for Getting Things Done," Organizational Dynamics (Autumn, 1978). A more detailed study of this phenomenon can be found in Thomas J. Peters, "Patterns of Winning and Losing: Effects on Approach and Avoidance by Friends and Enemies" (Ph.D. dissertation, Stanford University Graduate School of Business, 1979).
- 23 Khandwalla, "Strategy for Turning Around Complex Sick Organizations," op. cit.
- 24 One exception was Toyo Kogyo, where changes were introduced more slowly, partly because the company's old chairman remained in his official post for several years after Murai took over the company for Sumitomo bank. (Pascale and Rohlen, "The Mazda Turnaround," op. cit.)
- 25 Writers and researchers who have discussed transforming leadership include: James McGregor Burns, Leadership (New York: Harper & Row, 1978); Noel M. Tichy and David O. Ulrich, "The Leadership Challenge: A Call for the Transformational Leader," Sloan Management Review 26, no.1 (Fall, 1984): 59-68; Bernard M. Bass, Leadership and Performance Beyond Expectations (New York: Free Press, 1985); and Nancy Roberts, "Transforming Leadership: Sources, Process, Consequences" (Paper presented at the Academy of Management Annual Meeting, Boston, August, 1984).

- 26 A number of writers have been associated with the idea that leadership is ascribed or attributed, rather than achieved, including: Jeffrey Pfeffer, "The Ambiguity of Leadership," Academy of Management Review 2 (January, 1977): 104-112; James R. Meindl, Sanford B. Ehrlich, and Janet M. Dukerich, "The Romance of Leadership," Administrative Science Quarterly 30 (1985): 78-102; and Leo Tolstoy, War and Peace, trans. Rosemary Edmonds (Middlesex, England: Penguin, 1969).
- 27 Chester I. Barnard, The Functions of the Executive (Cambridge, MA: Harvard University Press, 1938); Philip Selznick, Leadership in Administration (Berkeley: University of California Press, 1957); and Burns, Leadership, op. cit.
- 28 Max Weber, "The Three Types of Legitimate Rule," trans. Hans Gerth, in A. Etzioni, ed., A Sociological Reader on Complex Organizations, 2nd ed. (New York: Holt, Rinehart and Winston, 1969): 6-15.

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